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Written by: Bev Rawn

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Introduction

Financial security is a very important consideration for retiring farmers. Pension benefits from the Canada Pension Plan provide retirement income. However, farmers sometimes encounter difficulties in understanding the Canada Pension Plan and the calculation of benefits from it.

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Objectives of this Factsheet

The objectives of this Factsheet are to:

- indicate the financial benefits possible through maximum contributions to the Canada Pension Plan;
- indicate the required contributions necessary to achieve maximum benefits from the Canada Pension Plan;
- provide an understanding of Canada Pension Plan benefits.

The Canada Pension Plan has been operating since 1966 and is designed to protect families against income loss due to retirement, disability or death.

The Canada Pension Plan is a contributory plan, funded entirely by the contributions from employees, employers and self-employed persons. Additional funding is obtained by interest earned on the investments of the Canada Pension Plan Investment Fund.

One month after reaching age 18, participation in the plan is achieved through compulsory contributions on earnings from employment or self-employment. Contributions are made on earnings from salary or wages received as an

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employee or net earnings from self-employment as defined by the Income Tax Act.

Contributions are made on annual earnings above a minimum called the year's Basic Exemption to a maximum called the year's Maximum Pensionable Earnings. The Basic Exemption and the Maximum Pensionable Earnings change over time. For 1999, the Maximum Pensionable Earnings are $37,400 and the Basic Exemption is $3,500. In dollar terms, employees and their employers will each contribute a maximum of $1,186.50 on average earnings in 1999. CPP benefits include:

- retirement income
- disability benefits
- a lump sum death benefit
- benefits for children of disabled and/or deceased contributors

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Changes

Changes are being implemented to the Canada Pension Plan. The changes are to ensure that the CPP is affordable to future generations and can be sustained in the face of an aging population, increasing longevity, and the retirement of the baby boom generation.

What Remains the Same:

- All retired CPP pensioners or anyone over 65 as of December 31, 1997 are not affected by the changes. Anyone currently receiving CPP disability benefits, survivor benefits, or combined benefits is also not affected.
- All benefits under the CPP will remain fully indexed to inflation.
- The ages of retirement — early, normal or late — remain unchanged.

Fuller Funding

- The CPP is moving from pay-as-you-go financing to fuller funding to build a much larger reserve fund. It will grow in value from about two years of benefits currently to about five years of benefits.
- Contribution rates will rise over the next 4 years to 9.9 per cent of contributory earnings and then remain steady.
- The year's basic exemption -- the first $3,500 of earnings on which no contributions are paid — will be maintained and frozen.

The contribution rates for 1987 to 2030 are shown in Table 1.

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Contributory Period

The length of time an individual makes contributions to the plan is called the contributory period. The contributory period starts on January 1, 1966 or one month after the individual reaches 18 years of age and will continue until the individual terminates contributions because of death, the month before retirement starts, or automatically at age 70.

Since the beginning of the plan, a record of yearly pensionable earnings and contributions is maintained and updated regularly using information supplied by Revenue Canada. Periodically each contributor is sent an updated statement of pensionable earnings and contributions. The contributor may also apply for a statement once every twelve-month period. This may be done by completing an Application for Statement of Earnings. This application may be obtained from the nearest Health Canada office. The application may only be submitted and signed by the contributor or his or her legal representative.

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Retirement Pension

An individual is eligible to receive a monthly pension if he or she has been credited with contributions to the plan in at least one year, and has either reached 65 years of age or is between 60 and 64 and has wholly or substantially ceased working. If you choose to receive retirement pension between age 60 and 64, the amount of pension will be reduced by 0.5 per cent per month, with maximum reduction of 30 per cent at age 60. If you delay receiving your pension until you are between 65 and 70 years of age, the amount of your pension will increase by 0.5 per cent for each month after age 65 to a maximum of 30 per cent at age 70.

The monthly pension received will vary from person to person. To ensure that the value of the pension is kept up-to-date yearly, pensionable earnings are indexed to reflect the growth in average wages to the present. Average wages for 1966 ($5,000) is indexed to equal in value average wages of 1986 ($25,800). To protect pension against the years when earnings were below average the following periods could be excluded when pension is calculated:

- low earning periods spent rearing children under age seven;
- low earning months after age sixty-five;
- 15% of your remaining contributory period when your earnings were the lowest.

Once the low earning periods have been removed, average adjusted earnings are calculated. Twenty-five per cent of the average adjusted earnings is available ror retirement pension at age sixty-five.

Example: Jim has made maximum contributions to the Canada Pension Plan since the plan began in 1966. He retired in January 1999. His retirement benefits can be calculated from Table 2, Column 4 to be $751.67.

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Survivor Benefits

A survivor's pension is a benefit that is payable to the estate, the surviving spouse and the dependent children of the deceased Canada Pension Plan contributor. There are three types of survivor pensions:

- a monthly pension for surviving spouse;
- a monthly benefit for the dependent children of deceased contributors;
- a lump sum benefit payable to or on behalf of the estate of the deceased contributor.

To qualify for survivor benefits, a contributor must have made contributions in at least three years. If the contribution period is more than nine years, you must have contributed in the lesser of one-third of the calendar years in your contributory period or ten calendar years.

The amount of the surviving spouse's pension is related to the amount of the contributor's retirement pension. When the surviving spouse is sixty-five years or over, the benefits available will equal 60% of the retirement pension. When the surviving spouse is between 45 and 65 years of age, the benefits will be a flat rate portion, plus 37.5% of the retirement benefit.

Example: Jim began drawing maximum retirement benefits in January 1999. In July, Jim died. Jim's wife, Marjorie, who is 66 can calculate her maximum survivor benefits from Table 2, Column 6 to be $414.46 per month. The maximum death benefit payable to Jim's estate would be calculated from Table 2, Column 5, to be $2,500.

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Disability Pension

The CPP is intended to help replace the income of persons in the labour force who became severely disabled and can no longer earn a living.

There are two types of disability pensions:

- a monthly pension payable to the disabled contributor;
- a monthly benefit for the dependent children of the disabled contributor.

Individuals are eligible for a disability pension if they are considered to be disabled according to the Canada Pension Plan. To qualify, they must have contributed to the Canada Pension Plan in 4 of the last 6 years on earnings that are at least 10% of the year's maximum pensionable earnings. They must be under 65 years of age and have not been in receipt of a Canada Pension Plan retirement pension for longer than 6 months unless disability occurred prior to the 6th month.

For those receiving disability benefits at the time of retirement at age 65, instead of calculating the retirement pension based on the year's maximum pensionable earnings at the time of retirement, the calculation is based on the year's maximum pensionable earnings at the time of disablement and indexed to age 65.

Refer to Table 2, Column 9 for Disability Pension calculations.

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Credit Splitting

Canada Pension credits are based on contributions that each worker makes to the plan. These credits are built up over years and are used to determine the amount of future Canadian Pension Plan benefits.

The Canada Pension Plan recognizes that both spouses earn Canada Pension Plan credits equally during the time they live together, even if one of the spouses was not in the paid labour force. The plan allows for the equal splitting of these credits in the event of divorce or separation of a legal spouse or separation of parties of common-law relationships.

Credit splitting will take place if the spouses lived together for at least 12 consecutive months and the marriage ended in divorce or annulment. The period of separation must be at least 12 consecutive months and an application must be received from either spouse in order to indicate credit splitting.

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Common Law Relationships

Example: Judy and Pat divorced after being married for 20 years. During the marriage, Judy was not in the paid labour force, and therefore did not contribute to the Canada Pension Plan.

Upon their divorce, Judy applied to have the credits Pat earned during the course of the marriage divided equally. After the division, Judy would receive an equal amount of the credits. When Judy reaches retirement age or if she becomes disabled, these credits will provide her with a retirement or disability pension.

Spouses defined as a male/female couple must have lived in a conjugal relationship for at least 12 consecutive months. The period of separation must be at least 12 consecutive months. An application must be made within 4 years of the date of separation in order to initiate credit splitting.

This document is a guide and additional information may be obtained by contacting Health Canada Income Security Programs. The address and telephone number can be found under Government of Canada in the blue pages of the telephone directory.

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This Factsheet was authored by: Bev Rawn, Business Development - Agriculture & Rural Division, OMAFRA, Guelph

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Title:Canada Pension Plan: Table 1

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Year	Previous Rate (percent)	Adjusted Rate	Year	Previous Rate (percent)	Adjusted Rate
1987	3.8	--	2002	7.1	9.4
1988	4	--	2003	7.35	9.9
1989	4.2	--	2004	7.6	9.9
1990	4.4	--	2005	7.85	9.9
1991	4.6	--	2006	8.1	9.9
1992	4.8	--	2007	8.3	9.9
1993	5		2008	8.5	9.9
1994	5.2		2009	8.7	9.9
1995	5.4		2010	8.9	9.9
1996	5.6		2011	9.1	9.9
1997	5.85	6	2012	9.3	9.9
1998	6.1	6.4	2013	9.5	9.9
1999	6.35	7	2014	9.7	9.9
2000	6.6	7.8	2015	9.9	9.9
2001	6.85	8.6	2016	10.1	9.9
			2030	14.2	9.9

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Indexing	Year	Maximum Pensionable Earnings	Exemption	Maximum Employee Employer Contribution	Maximum Monthly Retirement Benefits	Maximum Death Benefits	Maximum Survivor's Benefit <65	Maximum Survivor's Benefit >+65	Flat Rate Component of Various Benefits	Maximum Disability
	1966	5000	600	79.20						
	1967	5000	600	79.20	19.97					
	1968	5100	600	81.00	30.58	510.00	64.82	62.92	25.50	
	1969	5200	600	82.80	41.62	520.00	65.85	63.75	26.01	
	1970	5300	600	84.60	53.26	530.00	67.16	65.00	26.53	106.43
	1971	5400	600	86.40	65.33	540.00	68.47	66.25	27.06	109.88
	1972	5500	600	88.20	77.81	550.00	69.79	67.50	27.60	111.98
	1973	5600	600	90.00	90.71	560.00	71.12	68.75	28.15	114.09
8.20%	1974	6600	700	106.20	109.60	660.00	79.86	73.75	33.76	125.95
10.40%	1975	7400	700	120.60	134.97	740.00	88.31	81.67	37.27	139.35
11.20%	1976	8300	800	135.00	154.86	830.00	99.51	92.92	41.44	157.59
8.20%	1977	9300	900	151.20	173.61	930.00	109.94	104.17	44.84	175.05
7.50%	1978	10400	1000	169.20	194.44	1,040.00	121.11	116.66	48.19	194.02
9.00%	1979	11700	1100	190.80	218.06	1,170.00	134.28	130.84	52.51	216.06
9.00%	1980	13100	1300	212.40	244.44	1,310.00	148.92	146.66	57.25	240.58
9.90%	1981	14700	1400	239.40	274.31	1,470.00	165.78	164.59	62.91	268.64
12.30%	1982	16500	1600	268.20	307.65	1,650.00	186.05	184.59	70.68	301.42
11.20%	1983	18500	1800	300.60	345.15	1,850.00	208.03	207.09	78.60	337.46
6.70%	1984	20800	2000	338.40	387.50	2,080.00	229.18	232.50	83.87	374.70
4.40%	1985	23400	2300	379.80	435.42	2,340.00	250.84	261.25	87.56	414.13

Indexing	Year	Maximum Pensionable Earnings	Exemption	Maximum Employee Employer Contribution	Maximum Monthly Retirement Benefits	Maximum Death Benefits	Maximum Survivor's Benefit <65	Maximum Survivor's Benefit >+65	Flat Rate Component of Various Benefits	Maximum Disability
4.00%	1986	25800	2500	419.40	486.11	2,580.00	273.35	291.67	91.06	455.64
4.10%	1987	25900	2500	444.60	521.52	2,590.00	290.36	312.91	94.79	634.09
4.40%	1988	26500	2600	478.00	543.06	2,650.00	302.61	325.84	98.96	660.94
4.10%	1989	27700	2700	525.00	556.25	2,770.00	315.02	339.20	103.02	681.25
4.80%	1990	28900	2800	574.20	577.08	2,890.00	324.37	346.25	107.96	709.52
4.80%	1991	30500	3000	632.50	604.86	3,050.00	339.96	362.92	113.14	743.64
5.80%	1992	32200	3200	696.00	636.11	3,220.00	358.67	381.67	154.70	738.89
1.80%	1993	33400	3300	752.50	667.36	3,340.00	372.11	400.42	157.48	812.85
1.90%	1994	34400	3400	806.00	694.44	3,440.00	384.59	416.66	160.47	839.09
0.50%	1995	34900	3400	850.50	713.19	3,490.06	392.24	427.91	161.27	854.74
1.50%	1997	35800	3580	945.00	736.81	3,580.00	405.25	442.09	166.63	883.10
1.90%	1998	36900	3500	1,068.00	744.79	2,500.00	410.70	446.87		895.36
0.90%	1999	37,400	3500	1,186.50	751.67	2,500.00	414.46	451.00		903.55

The maximum self-employed contribution is twice the amouint shown for the employee-employer contribution.

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